

RETIREMENT REVOLUTION

We're ready. Are you?





Retirement Revolution
response to
STO RFI #13-01 – SB 1234
California Secure Choice Retirement
Savings Program



Section I – Information Requested

Information Requested

The name of the company, university, foundation or other organization and brief overview

Retirement Revolution®, LLC

Retirement Revolution is a wholly owned subsidiary of Vertical Management Systems, Inc. (VMS), formed to sell operations outsourcing solutions built on VMS's proprietary retirement-servicing technology. Retirement Revolution showcases VMS' Internet-centered technology that revolutionizes the retirement industry's approach to accounting for participant assets in the defined contribution plan arena. Our program is truly a **Next Generation Retirement Solution**.

The company operates as a recordkeeping and custodial service provider to Third Party Administrators, Registered Investment Advisors, and their Plan Sponsor clients. The company also offers Business Process operations outsourcing solutions to trust companies, broker/dealers, insurance companies and recordkeeping firms.

Retirement Revolution is positioned to disrupt the way all retirement plans are distributed and their assets held and serviced. The company's recordkeeping services are completely non-biased with regard to both plan design and asset selection. Retirement Revolution's recordkeeping platform was built to be agile, to be flexible, to support portability and to be scalable.

Our technology incorporates all required aspects of retirement plan servicing, including: recordkeeping; state-of-the-art payroll processing; custody; trust; securities processing; a web-centered user interface for all audiences, and much more. The entire platform operates off a *single* database. In addition, our operating platform includes the country's first fully regulation-compliant, participant-level, fee disclosure reporting system that is entirely integrated into the core accounting kernel.

No other daily valuation/payroll deduction recordkeeping platform on the market today can come close to delivering its degree of openness and participant-level access to personalized advice and investment. This flexibility can only be accomplished by fundamentally redesigning and rebuilding the technology from the ground up: Something we have spent the last few years doing.

VMS' proprietary technology features "best-in-class" fee transparency, and while we provide recordkeeping and custodial services to major retirement plan providers, our technology is also scalable so that we already have a good deal of experience and perspective on providing the same level of services to even the smallest of plans.

When configured to do so, Retirement Revolution's solution is also able to shift the custodial/investment processing and advice delivery portions of the overall servicing requirement onto brokerage and trust systems, while retaining tight control over recordkeeping-related aspects such as payroll processing, cashiering, distribution fulfillment, tax reporting, trust reporting etc.

Retirement Revolution's parent company, Vertical Management Systems, Inc. (VMS) is a technology innovation firm operating in the financial services space. The company was formed in 1992 and is privately owned by its original founders and a handful of other individuals. VMS specializes in designing, building and hosting a variety of Accounting and Process and Control



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systems that are used by some of the nation's premier providers of corporate retirement plan services. Our clients include: Wells Fargo Bank, Fidelity Investments, New York Life, SEI Investments, Ascensus and many others. VMS technology services more than 500 billion dollars in assets. Our first large Business Processing client was John Hancock, launched in July 2013.

VMS has spent the past few years designing and building what is the first truly participant-centric, custodial retirement solution available in the U.S. When this initiative was launched, it represented a wholesale re-plumbing of the technology supply chain for all types of retirement plan servicing. It functionally encompasses all of the following parties:

- Employer
- Employee
- Plan advisor
- Personal advisor
- Plan administrator
- Plan committees
- Plan recordkeeper
- Plan custodian
- Plan trustee
- Independent named investment fiduciary
- Payroll Providers
- Risk Managers

The company is headquartered in Pasadena, CA with a servicing office in Philadelphia, PA and Data Centers in Irvine, CA and Mesa, AZ.

Retirement Revolution would like to thank you for the opportunity to respond to this Request for Information.

The name of the individual(s) submitting the response

Donna M. Ross, President

The title(s) or position(s) of the individual(s)

President, Retirement Revolution

Indication of willingness to participate in a follow-up call or interview if necessary to clarify answers

Ms. Ross is available to respond to further questions, clarify answers and participate in interviews as may be requested.

Contact information including a telephone number and email address

Telephone: (626) 744-2517

Email: donna.ross@retirementrevolution.com

Detailed responses to the questions found in Section II of this document [Respondents are not necessarily required to answer all questions. Answer only questions relevant to your expertise and experience.]

Respondents are invited to include additional information they feel would benefit the Board in its development of the Request for Proposal (RFP) for the Secure Choice market analysis and feasibility study and for the design and implementation of the Program.



Plan Structure

1. What type of plan structure would you recommend to best meet the statutory goals and objectives for the Program, which include simplicity, ease of administration for employers, preservation of principal and portability of benefits (e.g., a pooled fund with guaranteed interest credited to individual accounts on a regular basis that utilizes a gain and loss reserve? Individually held IRA-type accounts with a variety of funds from which participants could choose? Something else altogether?)

The optimal design of the plan would be one patterned after a traditional IRA. This type of design, under IRA rules in the Internal Revenue Code, would not only be easy to administer but would also provide portability to employees and enable them to retain the same account as they move from employer to employer. Additionally with federal approval, this IRA-type account may also be eligible to move into an existing employer plan. Though this feature would likely create some amount of leakage, portability between the first plan and another type of plan later sponsored by the employer would be both desirable and beneficial.

An important feature of the recordkeeping system should be the ability to handle movement between eligible employers while maintaining the single participant account, as well as recording and maintaining the full history of contributions submitted by source employers. Additionally, whatever the Board determines with regard to the final investment categories, the system would need to be both flexible and scalable. Finally, the recordkeeping system must be capable of handling any additional account requirements contained in Government Code sections 100000-100044.

Investment Options

2. What investments would you recommend to best meet the goals and objectives of the Program, both in terms of the types of funds and underlying assets, and the style of management (i.e., active vs. passive)?

Wilshire recommends utilizing a suite of low-cost, passive target maturity funds, augmented with passive, core asset class index funds providing participants with the ability to customize portfolio exposure to domestic equity, foreign equity, domestic nominal & inflation-linked fixed income, and foreign fixed income.

Given the large target market for this program, representing millions of Californians currently lacking access to an employer-sponsored retirement plan, Wilshire would expect aggregate program asset value to rapidly grow. We believe the large number of participants and aggregate asset value would auger for a low-cost, passive investment structure as it could better accommodate such rapid growth as well as resulting asset capacity requirements. Moreover, we would expect the risk of underperformance to be largely mitigated.



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3. If you recommend more than one investment option, what would you recommend as the “default,” or automatic, option that would be chosen for participants who do not make an affirmative decision?

Given the large and heterogeneous needs of the participant population, particularly with respect to age, Wilshire recommends utilizing target maturity funds as the default investment for participants automatically enrolled in the program through a negative election. Target maturity funds have become the overwhelming default investment in defined contribution schemes, representing over 90% of QDIAs, due to their superior portfolio diversification and especially to their ability to reduce portfolio risk as participants approach and move through retirement.

4. Would you recommend including any insured interest or insured income products? Why or why not? What are the advantages and disadvantages of these products in terms of performance, risks, cost and transparency?

No. In this particular situation, Wilshire would not recommend including any insured interest or insured income products. While such products generally provide income in excess of money market and other high quality, short duration fixed income benefits, they often come with a number of disadvantages. First, such products subject participants to counterparty risk of the insurance company and its ability to make good its promises. Second, transparency is often lacking, particularly with respect to the true embedded cost to participants. Lastly, such investments, belonging to the class of other capital preservation products, are generally too conservative for long-horizon, retirement plan vehicles where the greatest risk is longevity risk, i.e., the risk of outliving one’s retirement savings due to insufficient savings and return, not the risk of short-term loss.

5. Would you recommend the Program provide a lifelong stream of guaranteed income? If so, how would you convert retirement savings into a lifelong retirement income stream, and what investment product would you recommend to accomplish this objective?

No, Wilshire would not recommend including guaranteed income products. While such products are becoming increasingly attractive in that they help participants both manage the risk of outliving their assets and reduce risk of loss, the increased cost and complexity cause these products to remain unattractive. Understanding, let alone communicating, how these products work, as well as all dimensions affecting their risk (*reduced market risk but increased counterparty exposure*), return (*reduced downside risk, but also upside participation*), liquidity (*redemption restrictions*), transferability (*rollover*), and cost (*increased fees associated with insurance*) profile remain significant barriers to participant use and understanding.

6. Would your recommendations require changes to the investment policy parameters in SB1234? If so, what modifications to the statute would you recommended, and why?

No.



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7. What recommendations would you make to ensure an effective risk management system is in place to monitor risk levels of the Program and ensure risks taken are prudent and properly managed?

Regular monitoring and quarterly review are a critical part of the review process to ensure investment options selected for the lineup continue to meet Wilshire's criteria as suitable investment options for retirement plans. Accordingly, the lineup is reviewed quarterly to capture the most recent performance and fund attributes of each investment option. Wilshire Manager Research also meets with the investment teams and updates investment evaluations frequently, generally at least once every year. Turnover among Fund Menu options is generally low, occurring due to a significant deterioration in Wilshire's qualitative conviction in an investment option or in Wilshire's Investment Rating and/or one of the components Wilshire reviews (e.g., performance, risk, style, cost and/or organization quality) which, upon further review, is determined to make the investment no longer suitable. Changes in the status of an investment option are promptly communicated to the plan sponsor, or in this case to the Board.

Plan Design and Features

8. What would you recommend as the automatic, or "default," contribution level for participants who do not opt out, but who do not make an affirmative decision to contribute at a higher rate than the default rate?

We agree that the initial default rate contribution should be set at three percent. This rate would be comparable to other existing employer plan programs. We also believe that, since the program is required and has as its ultimate goal saving for a more secure retirement, the opt-out provision should not be a permanent one, and should not even appear to be an irrevocable decision. Employees who do opt out should be required to re-confirm their decision either on an annual or bi-annual basis.

9. What options, if any, would you recommend for an automatic escalation feature that increases participants' contributions over time?

Automatic contributions combined with automatic escalation are an excellent idea. A sophisticated recordkeeping system like that developed by VMS is able to drive the escalation event through messaging reminders to both employer and employee, whether the escalation is an annual increase based on an employer's cycle, a cycle driven by the calendar year, an employment anniversary, or even employee-driven escalation periods. The alerts can be delivered by mail, email or text message.

10. Are there any other plan design features that should be included (or eliminated) to ensure the plan meets the goals and objectives of the Program? Please explain.

With the amount of potential enrollees eligible for inclusion in this program, completing, storing and tracking paper forms would be a bureaucratic nightmare. We recommend instead that a digital interface be built to capture participants' information with an E-Sign feature or DocuSign feature. We suggest modifying EDD's existing online information and data-capturing capabilities. Employees could access our website via an online link provided by the employer. For employees who do not have access to the Internet, we suggest providing access through all local library branches within the state of California. Information captured would then be uploaded to the appropriate agency, such as the



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EDD. Simultaneously, this information would also be uploaded to the recordkeeping system so that event messaging could take place at future points. Examples of these messages include informing the employer of the payroll date on which the employee's first automatic contribution is to be deducted, or the re-initiation of auto enrollment after an opt-out period.

11. What plan design elements would you recommend to minimize pre-retirement “leakage”?

We agree that an initial three-percent automatic contribution as the default rate is a good choice, and we view an automatic escalation feature as another positive decision. We also suggest that not forcing a distribution at termination would help alleviate leakage.

Costs and fees

12. Provide an estimate of the ongoing administrative costs and fees of the investment options you recommend and identify the components of those costs and fees.

It is too early to provide costs. Our recordkeeping fees will be a per employee flat fee, plus a transaction fee for employee distribution.

13. How would you propose to assess fees to cover the costs required to start up the plan? Please identify the components of those costs and fees.

Establish a non-profit organization of long-term insurance and investment shareholders to fund development costs.

14. How would you recommend the Board ensure transparency of fee and expense information available to the Board and Secure Choice participants including transparency of service providers' relationships or potential conflicts that may increase costs and/or conflict with the interests of plan participants?

The Retirement Revolution platform is designed as a daily valuation recordkeeping system. With our proprietary technology, we calculate a daily accrual of all mutual fund revenue earned by each individual account on our platform, according to the rules of each fund. Then, upon receipt, we credit the revenue-sharing dollars back into each participant's accounts. Our program includes the following capabilities and features at the individual plan participant level:

- Identification of all available mutual fund 12(b)1 and sub-T/A fee agreements affecting a participant's assets
- Accurate participant-level accrual of all 12(b)1 and sub-T/A fees on a daily basis
- Crediting of all cash received through 12(b)1 and sub-T/A fee agreements back to participant accounts upon receipt from fund companies
- Reporting of mutual fund management fee schedules for all the funds the participant held during the quarter
- Detailed reporting of the fees the participant was charged for the services rendered by each of the service providers to their plan (i.e., RIA, TPA, Custodian, Recordkeeper, Trustee, etc.)



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- 12(b)1 and sub-T/A fees accrued and paid to participants using the same calculation methods applied by each mutual fund they hold

Additionally, all recordkeeping fees, as well as any other fees, will be accrued daily, and identified and moved from the employee's account to the service provider's fee account on our platform. Daily access to view fee accounts will be available and service providers will be paid via ACH. The Gain and Loss Reserve account will also participate in our full transparency features.

Administrative issues

15. What are your recommendations for identifying, and disseminating information to, eligible employers and employees (including employees of nonparticipating employers)? Consider the potential roles that could be played by California's Employment Development Department, any other state agencies or departments, and/or private sector vendors.

Interfaces will need to be built in order to efficiently and safely move information between the EDD, the employers and the recordkeeping system. Vendors will need to work closely with EDD to determine the best way to build these interfaces as well as the User interfaces to interact with the data, with the employers and with the participants.

16. What are your recommendations for managing enrollment, the receipt and recordkeeping of employee payroll contributions and transactions, and managing rollovers in and out of Program accounts, including potential roles for the Employment Development Department, any other state agencies or departments, and/or private sector vendors?

The program needs assurance that the amounts deducted from employees' pay are timely deposited to the trust. With this said, there needs to be a very clean seamless process in place to collect these funds. Collection could take place via ACH, EBT, in some situation credit cards have been used, however, for this required participation by employers the use of credit cards may prove to be costly to the program unless the employers were charged a surcharge to cover underlying credit card costs.

The recordkeeping system should include a group of reports clearly designed for usage and also with certain downloadable capabilities, e.g. to an excel file or some type of text file.

Once the entry requirements are determined, the auto enrollment programs would run daily with reverse data feed reports that can be scheduled to run and disseminated electronically to eligible employers indicating which of their employees need to have the first contributions remitted. Additionally, for those employers not meeting their obligation of making the program available, notifications via the messaging system can be sent, followed by warnings. From there it would be necessary to work with the various agencies as to how penalty notifications should be sent.

Through the Retirement Revolution recordkeeping system, as employees move from one employer to the next, their program account can remain intact with only their employer linking identifiers needing updates, e.g. a move from Employer A to Employer B could be as easy as a unique plan/employee identifier change from A123 to B123 with an effective date of this change. For the recordkeeping system this is just another row of information added; however, that row then signifies which eligible employer the



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employee is now associated, it contains effective date information for historical research and reports and records reflect this new information now.

For research, the User will be able to see the entire history of this individual while a participant of the program.

Distributions and forms of distribution, e.g. rollover will depend greatly on federal approval of the program. More discussion will be needed for this topic.

The recordkeeping system must be able to accomplish all forms of distributions: single sum cash; one-click rollovers to IRAs, if applicable; rollovers to employer plans, if applicable; payments over a period certain or over life expectancy. Further discussion will be required if the Board determines that annuities should be made available to the participants. Annuities carry lifetime benefits the value of which can exceed the value of the participants account at retirement. Although actuarial gains can occur so also can actuarial losses. The losses put a strain on the program. Therefore consideration must be made in terms of whether annuities would be purchased from an insurer with the employee's balance. This action will cause dollars to leave the program, however, this type of "leakage" still meets the goals of the overall CSCR program.

17. Do you have any particular concerns about, or anticipate any significant challenges with, administering the Program? If so, how would those concerns and challenges best be addressed?

Our primary concern is successfully demonstrating that the California Secure Choice program is not an employee benefit covered under ERISA, and therefore not subject to federal approval.

From a recordkeeping vantage point, we are confident that the concerns due to the sheer size of the program, as well as the consistent need for managing the workflow, can be met with a system that is flexible, scalable and has unlimited capabilities with regards to volume and to investment architecture, a system like ours.

Legal issues

18. What approach would you recommend to demonstrate the Program is not subject to ERISA and that Secure Choice accounts would qualify for favorable federal income tax treatment generally granted IRAs?

We would work with a team of experienced tax and legal professionals to ensure that this type of program falls under a grandfathered IRA provision, so as to avoid it being deemed an employee benefit plan while, at the same time, under the IRA provisions we are able to maintain the tax-deferred dollars entering the program as well as all aspects of portability.

19. What further statutes and/or regulations would you recommend be enacted in order to strengthen the legal basis for this retirement savings program?

With current legislation and the possibility of this program being grandfathered in under the federal IRA provisions, the California state laws related to IRA contribution may need to be expanded to include federal recognition of those contributions.



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Establishing a Retirement Investments Clearinghouse

SB 1234 grants the Board the authority to establish an online clearinghouse, and to register for inclusion on the website vendors who offer employer-sponsored retirement plans and payroll deduction plans and who meet specified requirements. The cost of establishing the registration process and the online clearinghouse would be borne equally by registered vendors.

20. Please provide your assessment as to whether there would, or would not, be sufficient interest from vendors to establish an online Retirement Investments Clearinghouse.

We believe there would be ample interest on the part of investment and insurance providers to establish an online Retirement Investments Clearinghouse, because the manufacturers of insurance and financial investment products would benefit greatly from such a clearinghouse, especially considering the scale of one serving the entire state of California.

21. How would you recommend the Board establish a process to register participants and operate the clearinghouse effectively, efficiently, and in a manner that eliminates or reduces any liability on the part of the Board associated with registering participants and operating the clearinghouse?

The way to reduce liability on the part of the Board associated with operating and providing ongoing oversight of the clearinghouse is to outsource the selection and monitoring of investments to a third party. For this process today, we partner with Wilshire & Associates.

Developing the RFP for the market research, plan design and feasibility study

22. Do you have any recommendations for the type of firm, or firms, that would be most qualified and able to conduct the work necessary for the market research, feasibility and plan design study?

Retirement market research firms such as Chatham & Associates understand the marketplace and are very experienced conducting and analyzing surveys.

23. Are there firms that would be able to successfully conduct all aspects of the work, or is it likely the Board will have to contract with more than one firm?

Most likely, the Board will be able to work with one research vendor.

24. Do you have recommendations about requirements that should be included in the RFP either in terms of the scope of work required or the qualifications of bidders?

Some recommended questions for inclusion in the RFP:

Fees: Can your recordkeeper accrue fees on a daily basis as well as identify and report the recipient of those fees?

Access: Can your recordkeeping system provide multiple levels of access by plan, region, etc.



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Advice: Can your recordkeeping system allow multiple registered representatives to have access to those employees who want professional investment advice?

Portability: Can your system recognize an employee who was in a previous CSC plan but now has changed employers and enrolled in a second plan? Can it maintain the same credentials of that employee? Can it store, view and report on both plans?

Compliance: Can your system identify and report employers' non-compliance with regard to coverage? Can it track and report on timely transmission of contributions? Can your system monitor compliance by geographic area or region such as by state Congressional districts in order to support outreach and marketing efforts?

Recordkeeping: When was your recordkeeping system built? How many third-party accounting or trading systems does it use? Does your recordkeeping system have a fully integrated Content Marketing component?

Content & Messaging: Can your content and messaging vary by role, including Employer, Employee, Board-Appointed Representative, Payroll Providers.

Strategies for seeking and securing funding for the market research, plan design and feasibility study

By statute, funding to complete the market and feasibility study can only be obtained from the contributions of private individuals, private nonprofit or for-profit entities, from federal sources or from any combination of such sources. The use of State funds or borrowing funds for the study is prohibited.

25. Do you have suggestions and/or examples for the types of organizations that might be able and willing to donate significant funding, or sources of federal funds that might be available for the study?

The manufacturers of financial and investment products would stand to benefit greatly from the establishment of an online Retirement Investments Clearinghouse, and would likely be eager to invest in any activity that would move the process forward.

26. Given that some organizations do not or cannot donate directly to governments, will the fact that donated funds must be placed in a State of California account make it more difficult to raise money? If so, can you suggest funding solutions or arrangements that might help to avoid this difficulty while maintaining the state's independent oversight and jurisdiction over the study?

It is understood that for certain organizations who might be interested in this program, amounts contributed could be looked up as potential lobbying for inclusion in the program. Each organization would therefore need to clear their contribution efforts with their internal compliance teams to determine if such contributions were of concern, and at what point in the future the organization may then be considered able to become a vendor under the program. As the RFP is crafted, we recommend that a question regarding this be included.



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The issue may be of lesser concern if monies contributed toward this effort were set aside in an escrow account to be used specifically for marketing research and development after the research determines the viability of the program. The terms of the escrow account and the terms between the contributors and the Board would need to specify how monies are disseminated when the program moves forward, as well as what action would take place if the program does not move forward.

Further discussion with the parties is clearly needed.

Timeline for the market research, plan design and feasibility study

Below is a timeline Secure Choice staff presented to the Board at their first meeting. The Board directed staff to revise the timeline and aim to implement the program and begin enrolling participants in 2015.

27. Do you have recommendations for revising the timeline in a manner that would allow for an earlier implementation date?

Not at this time.

Activities	Dates
Release the RFI and receive responses from experts and scholars	Sept. 2013 – Nov. 2013
Prepare RFP for the market and feasibility study	Sept. 2013 – Jan. 2014
Release RFP and choose vendor(s) to conduct the study	Jan. 2014 – April 2014
Vendor(s) conduct market and feasibility study	April 2014 – Oct. 2014
Board considers study recommendations and transmits final report with recommendations to the Legislature, including a request for the authority to make the Program operational if the study's findings are favorable	Oct. 2014 – Jan. 2015
If the Board recommends making the Program operational, and in anticipation of receiving Legislative authority to do so, develop RFPs for administrator, record keeper, investment consultant and other contracts necessary to operate the program.	Jan. 2015 – July 2015
Enactment (or failure) of an authorizing statute expressing the approval of the Legislature to fully implement the Program	July 2015
If authorizing statute is enacted, begin the bidding process for vendors and consultants necessary to administer the Program	July 2015 – Oct. 2015
Secure Choice begins enrolling participants	Early 2016

California Secure Choice Payroll Deduction IRA

Step 1

EDD
Transmits
employer data to
Recordkeeper

Step 2

Recordkeeper
determines
companies
required to
establish plan
(automated daily process)

Step 3

Recordkeeper
notifies employer
of requirements &
instructions with
link to website

Step 4

Employer
completes
work flow
-ER & EE info
-Forms
-Funding info
-Payroll info

Step 5

Recordkeeper
confirms plan
setup & transmits
ID to EDD

Recordkeeper
sends confirmation
to employee* with
vWise video link

If employee was
with a prior IRA,
then same ID &
password—plan
identifiers would
change

Employee may
elect an alert
when every
deposit is made

Step 6

Recordkeeper,
using vWise video
education, notifies
employee of
contribution*

Allows employee to
cancel, but not
before a quick video
to increase
contribution and
explore the benefits
of saving for
retirement